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## IUR Capital

# Protect Your Portfolio with Put Options

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# Protect your Portfolio with Put Options

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“Peace is the virtue of civilization. War is its crime.”

*(Victor Hugo)*

# Host Profile (Gareth Ryan)

- Founded IUR Capital Ltd in 2007, IUR Capital LLC in 2010
- IUR Capital is an investment advisor for institutional and retail investors
- Focused on exchange-traded option strategies

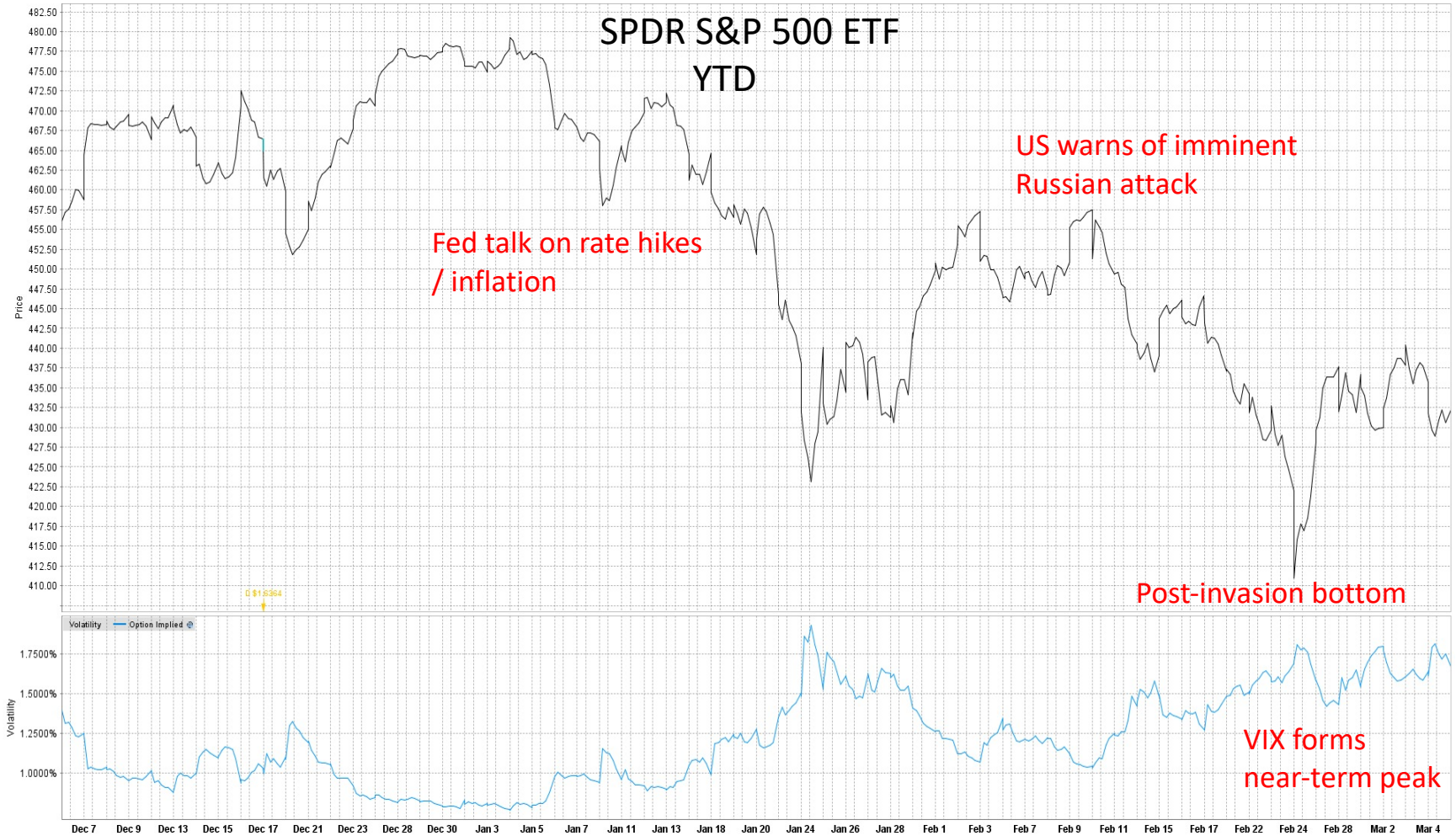
# Market Update...in historic times

- All major indices remain negative YTD
- Nasdaq tested bear market territory in late February
- S&P 500 posted declines for Jan + Feb
- Volatility remains elevated across equity markets
- Risk assets have borne the brunt of unprecedented events in Ukraine
- And we have a Fed rate decision on the horizon....

*(As of February 28, 2022)*

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# S&P 500 ETF...the here and the now



Source: IBKR TWS (03/07/2022)



# Everyone becomes concerned about the VIX during market sell-offs...



Source: IBKR TWS (03/07/2022)

# What causes volatility, and why is volatility important?

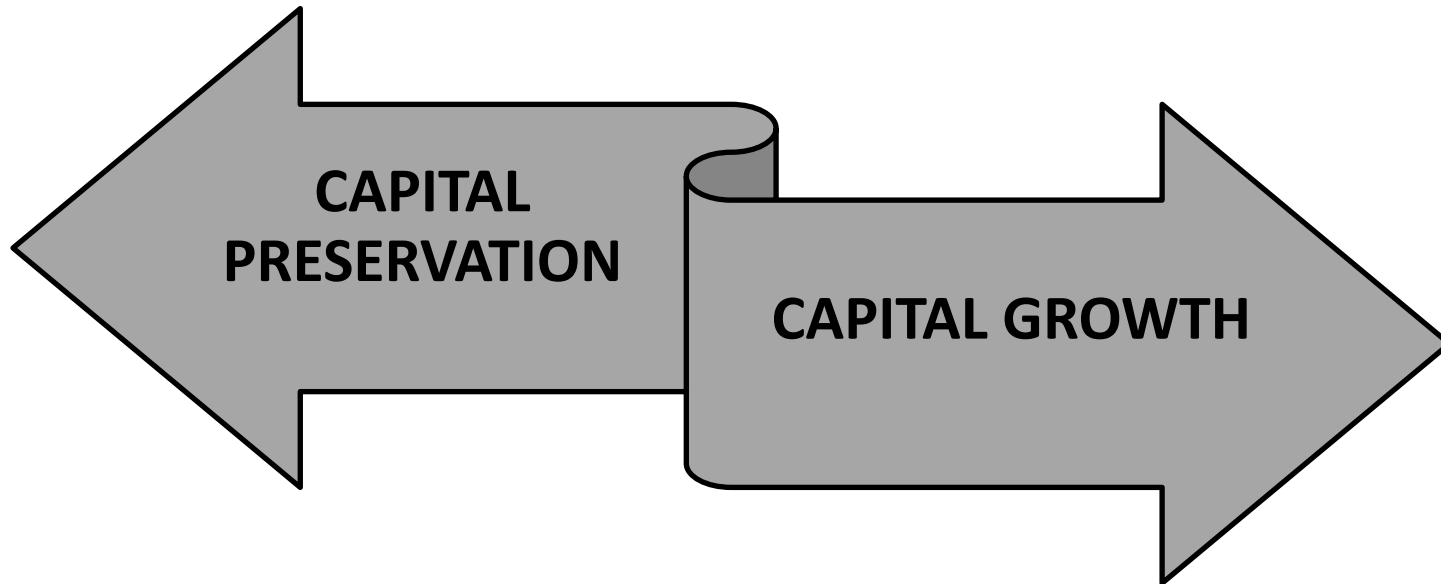
- The March 2020 market meltdown saw historic moves in x-asset volatility:
  - *1: Fastest ever correction for S&P 500*
  - *2: Fastest ever bear market for S&P 500*
  - *3: Record VIX print of 84*
  - *4: Dow has two of its largest ever daily points declines in the same week*
  - *5: US equity options volume breaks new daily records*
- High volatility = High option pricing
- Fed talk / lack of Fed action
- Economic reports (jobs reports / inflation data / manufacturing data)
- Investor sentiment
- **Russia's invasion of a sovereign European state now takes centre stage for near-term volatility**

# And so to recent events....

- Geopolitical tensions have been building for weeks
- The lack of progress through diplomacy a key factor of today's invasion
- Russian invasion threatens to bring Europe back to dark days of WWII
- Some important questions to ask.....
- How long will the conflict in Ukraine last? Will this be a full-scale invasion?
- Investors seek to determine the near-term impact for global markets

# Question of the day....

What is our objective in these historic times?



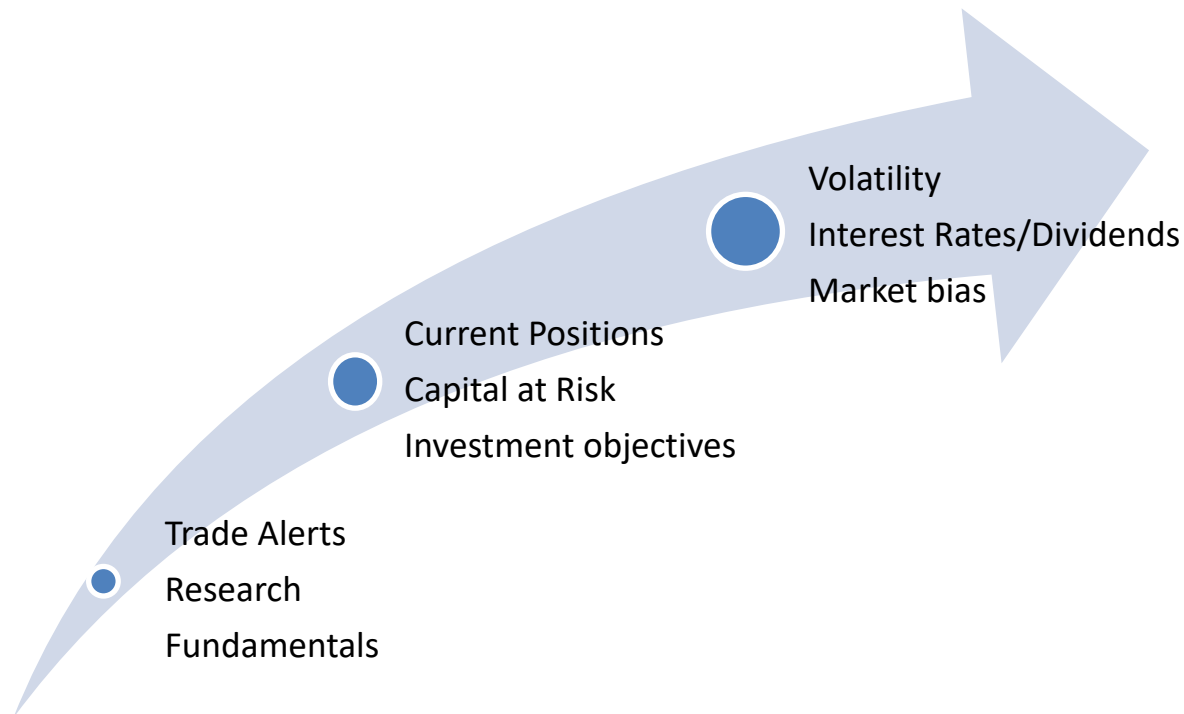
Answers please in the Q&A Panel

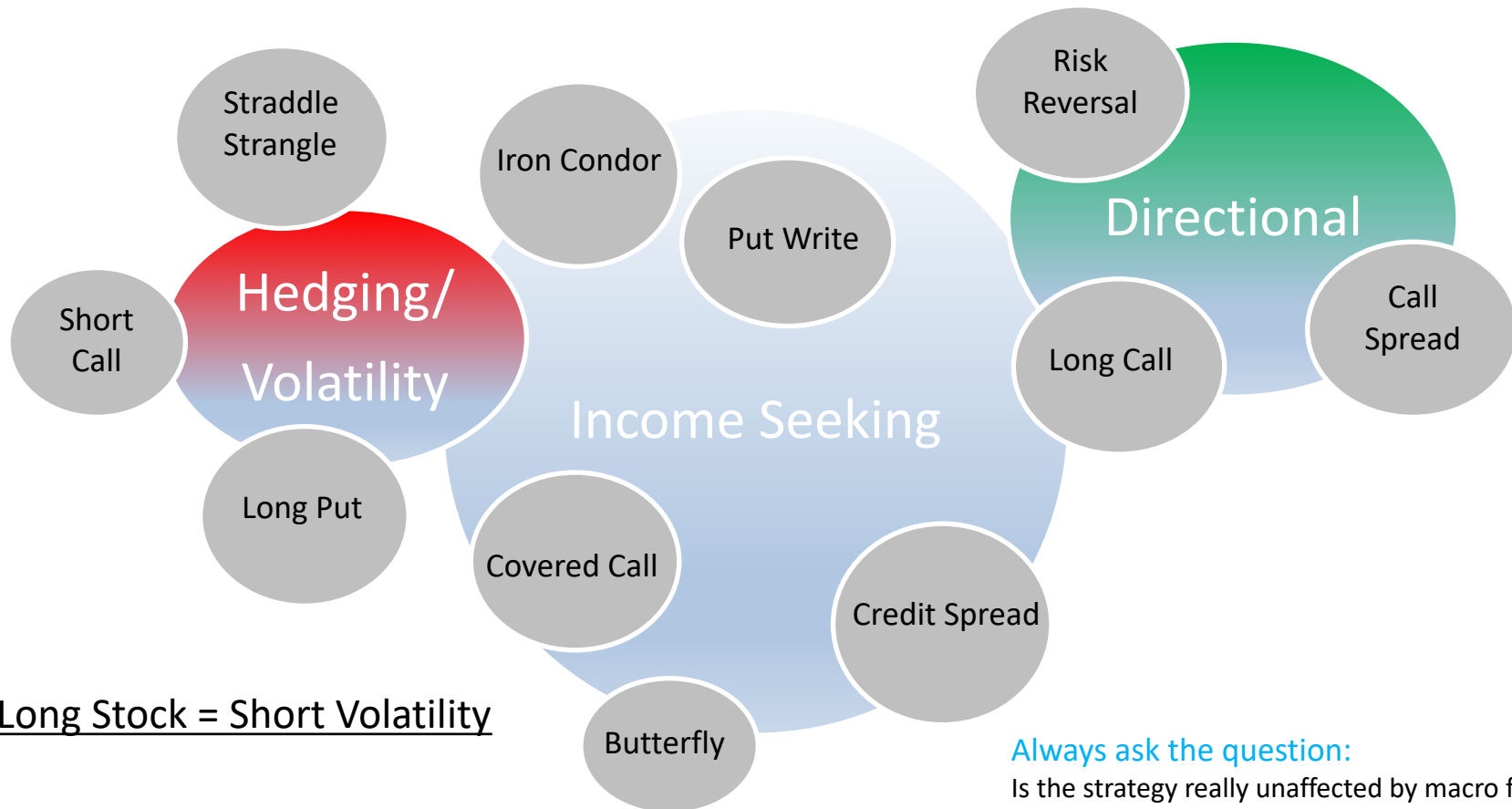
Buying Puts = Buying Volatility

Selling Puts = Selling Volatility

# Options: Significant Potential Benefits... but inherent challenges

- Used correctly options can provide the opportunity to improve portfolio performance and also reduce risk
- But identifying our parameters for use of options in a portfolio can be daunting





Long Stock = Short Volatility

**Always ask the question:**

- Is the strategy really unaffected by macro forces (growth, inflation, monetary policy)?
- How to react if the sensitivity changes over time?
- Adapt the strategy / Lower expected potential

*Options involve risk and are not suitable for all investors. Multiple leg strategies, including spreads, will incur multiple transaction costs*

# Use of index/index ETF products as underlying vehicles

Ticker	Instrument	Style	Settlement
SPY	SPDR S&P 500 ETF	American	Physical
SPX	S&P 500 Index	European	Cash
IWM	Russell 2000 Index ETF	American	Physical
RUT	Russell 2000 Index	European	Cash
QQQ	Invesco QQQ Trust	European	Physical

\*Note that SPY / IWM ETF products have quarterly dividends.

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# Reasons to hedge with options...

*"Everybody's got plans...until they get hit."*

*Mike Tyson*

- **Economic**
  - Correct for “wrong-way market bias”
  - Reduce portfolio volatility at appropriate cost
- 
- **Behavioural**
  - Hedging should be a mouthguard, helps to avoid big psychological hits during major market events...like earnings
  - Also helps us to stay the course...are you short-term or long-term with your horizon?

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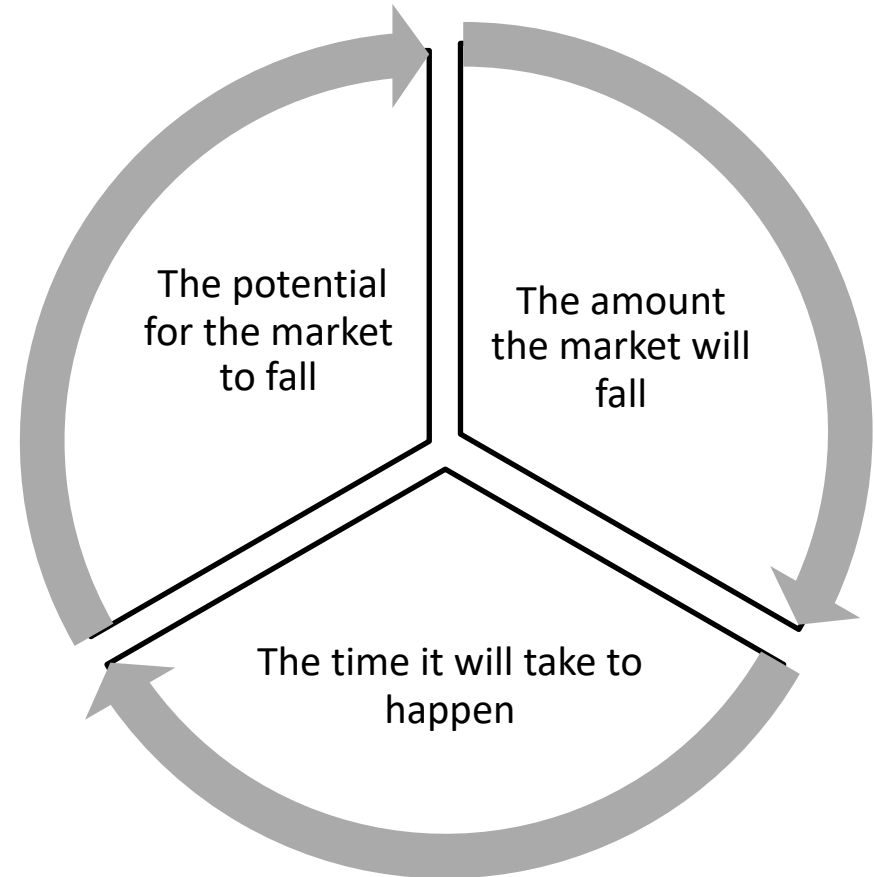


- **By having an explicit approach to hedging in place, we can more accurately determine the “lay of the land” during sharp market selloffs**
- We planned for this
- We hedged in anticipation
- We are better positioned for this situation than we were previously
- If the portfolio is heavily exposed to tech, the recent correction necessitates at least partially reducing your risk with puts

# Protection is cheaper than you think...

To be successful with hedging using put options, we need to be right about three things:

- **Fixed costs** – what will we spend on premium?
- **Standalone** – expected return of the protection element of the portfolio?
- **Portfolio cost** – What is the marginal effect on the portfolio from continually hedging with puts?



# Puts – a quick review of the basics...

**To be successful in buying put options, we need to be right about three things:**

\*The more bearish you are, the more willing you may be to purchase options that are far out-of-the money. That means there might have to be a substantial decrease in the price of the underlying stock for you to break even or realise gain.

**The potential for a stock to fall**

**The amount that the stock will fall**

**The time will take to happen**

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# Why use Puts as Insurance....

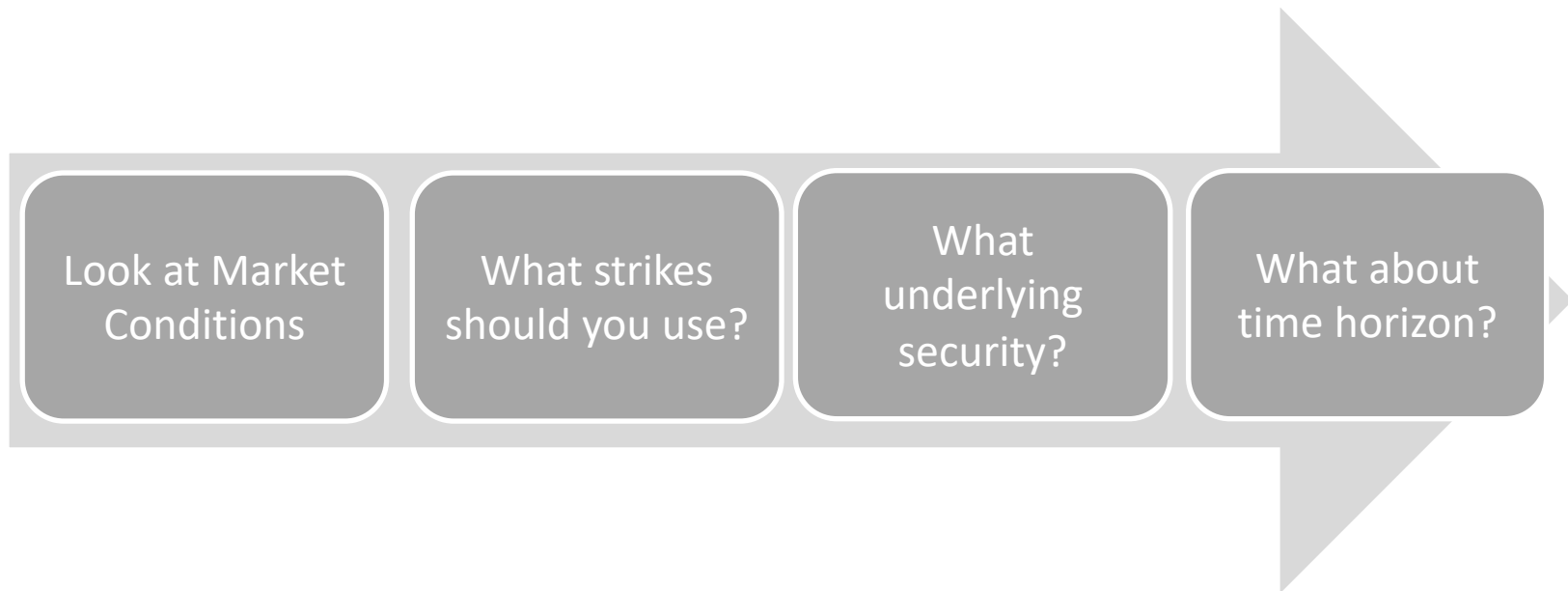
- Hedging a long equity portfolio
- Protection before a key event, which may significantly move your underlying
- If your underlying does have a near-term sell-off, puts will gain to mitigate unrealized loss on the equity portfolio
- How much protection are you seeking to hold? 50% of your portfolio

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Let's look at this in a real market example....

# Making option-based strategies work in a portfolio.....



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# Let's talk...about your portfolio

Email me [gryan@iurcapital.com](mailto:gryan@iurcapital.com) to request the slides or to have a chat....